

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02 OPIC-03
SP-02 LAB-04 SIL-01 OMB-01 STR-07 CEA-01 DODE-00
PM-05 H-01 L-03 NSC-05 PA-01 SS-15 /101 W
-----046408 190024Z /73

R 181912Z AUG 78
FM AMEMBASSY OTTAWA
TO SECSTATE WASHDC 8412
INFO AMEMBASSY BRUSSELS
AMEMBASSY PARIS
AMCONSUL MONTREAL
ALL OTHER CONGENS IN CANADA POUCH

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BRUSSELS FOR USEEC

PARIS FOR USOECD

DEPT. PASS CEA, TREAS, FRB
E.O. 11652: N/A
TAGS: ECON, CA
SUBJECT: GOC ECONOMIC POLICY INITIATIVES
REFS: A. OTTAWA 3857; B. OTTAWA 1020; C. OTTAWA 1814
D. OTTAWA 1989
1. SUMMARY: GOC HAS ANNOUNCED FIRST DETAILS OF CDOLS 2
BILLION EXPENDITURE CUT PROMISED BY TRUDEAU IN AUGUST 1
SPEECH. CUTS ANNOUNCED TOTAL CDOLS 1.5 BILLION OF WHICH
CDOLS 500 MILLION WILL BE EFFECTIVE IN CURRENT FISCAL YEAR.
REDUCTIONS APPEAR TARGETED ON CAPITAL SPENDING AND FOREIGN
AFFAIRS (DEFENSE AND AID) WITH SOCIAL SERVICES LARGELY
UNTOUCHED. FURTHER SPENDING REDUCTIONS AND STIMULATORY
MEASURES ARE EXPECTED TO BE ANNOUNCED SHORTLY. END
SUMMARY.

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2. FOLLOWING AUGUST 16 CABINET MEETING ON BUDGET, TREASURY
BOARD PRESIDENT ROBERT ANDRAS ANNOUNCED FIRST DETAILS OF
CUT IN CURRENT AND PLANNED GOC EXPENDITURES PROMISED BY
TRUDEAU IN AUGUST 1 SPEECH (SEE REF A.). PLANNED
REDUCTIONS ANNOUNCED THUS FAR TOTAL CDOLS 1.5 BILLION
AND ARE IN ADDITION TO CDOLS 965 MILLION ALREADY ACHIEVED

SINCE APRIL IN "DETERMINED CUTTING EXERCISE". ADDITIONAL SPENDING CUTS AMOUNTING TO ABOUT CDOLS 1 BILLION WILL BE ANNOUNCED SHORTLY, ACCORDING TO ANDRAS. THUS, TOTAL SPENDING WILL BE IN EXCESS OF TRUDEAU'S CDOLS 2 BILLION COMMITMENT. OF TOTAL SPENDING CUT, CDOLS 500 MILLION WILL TAKE PLACE IN CURRENT FISCAL YEAR, WITH BALANCE TO BE EFFECTED IN FY 1979-80. MEASURES TO STIMULATE ECONOMY WILL ALSO BE ANNOUNCED IN NEAR FUTURE.

3. SIGNIFICANT CUTS PROPOSED INCLUDE FOLLOWING:

--NATIONAL DEFENSE EXPENDITURES WILL BE REDUCED BY CDOLS 150 MILLION;
--BILINGUAL BONUS PAID TO FEDERAL EMPLOYEES WILL BE ELIMINATED; THUS SAVING CDOLS 35 MILLION PER YEAR; . --
--CIDA BUDGET FOR FY 1979-80 TO BE FROZEN AT FY 1978-79 LEVEL. THIS IMPLIES CUT OF CDOLS 133 MILLION IN CIDA'S PLANNED FY 1979-80 EXPENDITURE;
--LA PRADE HEAVY WATER PLANT IN QUEBEC TO BE MOTHBALLED TO PRODUCE SAVINGS OF CDOLS 150 MILLION. DISCUSSIONS WITH PROVINCE ON THIS MEASURE TO BEGIN SOON. PLANT IS ABOUT ONE THIRD COMPLETE AND WOULD PRODUCE HEAVY WATER IN EXCESS OF REQUIREMENTS, GIVEN FLAGGING SALES OF CANDU REACTORS. HOWEVER, BECAUSE CONSTRUCTION OF PLANT WAS BEGUN AS JOB CREATION MEASURE AT QUEBEC'S INITIATIVE, FEDERAL MOVE COULD ELICIT CRITICISM FROM PQ;
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--EVERY DEPARTMENT TO REDUCE OPERATING COSTS FOR TOTAL SAVING OF CDOLS 250 MILLION.

4. OTHER ECONOMIES WILL RESULT FROM ABOLITION OF LIVESTOCK FEED BOARD, AND CLOSING OF FOUR LOW PRIORITY DIPLOMATIC POSTS ABROAD.

5. CUTS WILL RESULT IN ELIMINATION OF ABOUT 5,000 FEDERAL JOBS. THOSE AFFECTED WILL RECEIVE ASSISTANCE THROUGH A "SPECIAL LAY OFF POLICY".

6. EXPENDITURE REDUCTIONS FOR FY 1978/79 ARE FROM LEVELS CONTAINED IN TREASURY BOARD'S "MAIN EXPENDITURE ESTIMATES" PUBLISHED IN FEBRUARY (SEE REF B.). MAIN ESTIMATES CALLED FOR EXPENDITURES OF CDOLS 48.8 BILLION IN FY 1978/79, UP 9.8 PERCENT FROM FY 1977/78 AND CONSISTENT WITH GOC GOAL OF HOLDING ANNUAL GROWTH OF NOMINAL FEDERAL SPENDING BELOW 10 PERCENT. ANDRAS NOTED THAT THE CDOLS 500 TO BE SLASHED FROM FY 1978/79 SPENDING INCLUDED THE CDOLS 350 MILLION CUT INCLUDED IN APRIL 10 GOC BUDGET (SEE REF C.). ACCORDING TO ANDRAS, THE INCREMENTAL REDUCTION OF CDOLS 150 MILLION

FOR THIS FISCAL YEAR WAS IMPLEMENTED DUE TO RISK THAT ACTUAL GROWTH OF FEDERAL SPENDING WOULD EXCEED 10 PERCENT OBJECTIVE. PLANNED CUTS WILL HOLD FEDERAL SPENDING TO ABOUT CDOLS 48.3 BILLION IN CURRENT FISCAL YEAR, AN 8.8 PERCENT RISE FROM FY 1977/78.

7. EXPENDITURE REDUCTIONS FOR FY 1979/80 ARE FROM LEVELS AGREED UPON BETWEEN DEPARTMENTS AND TREASURY BOARD BUT AS YET UNPUBLISHED.

8. COMMENT: BECAUSE ADDITIONAL EXPENDITURE CUTS AS WELL AS STIMULATORY MEASURES OF UNCERTAIN MAGNITUDE AND TIMING ARE YET TO BE ANNOUNCED, IT IS NOT NOW

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POSSIBLE TO ESTIMATE MACRO-ECONOMIC IMPACT OF BUDGET. FINANCE DEPARTMENT OFFICIAL TOLD EMBOFF THAT NET IMPACT OF MEASURES WOULD BE ESSENTIALLY NEUTRAL (SEE REF A.). INCREMENTAL SPENDING CUTS WHICH COULD BE EFFECTIVE IN CY 1978 TOTAL ONLY CDOLS 150 MILLION, AND ARE NOT LARGE ENOUGH TO HAVE SIGNIFICANT IMPACT ON REAL GNP GROWTH. GOC HOPE IS THAT NEW POLICY PACKAGE WILL GIVE CLEAR SIGNAL TO PRIVATE SECTOR THAT ROLE OF GOVERNMENT IN ECONOMY WILL NOT EXPAND AND COULD WELL CONTRACT, THUS PROVIDING BOTH THE INCENTIVE AND THE ROOM FOR INCREASED PRIVATE SECTOR ACTIVITY.

9. TARGETING CUTS ON AGENCY CAPITAL BUDGETS AND FOREIGN

ACTIVITIES (DEFENSE AND AID), WHILE FOR NOW AVOIDING
REDUCTIONS IN SOCIAL SERVICES, MINIMIZES NEGATIVE IMPACT
ON INDIVIDUALS. THIS, PLUS ELIMINATION OF BILINGUAL
BONUS -- WIDELY UNPOPULAR AMONG ANGLOPHONES -- SHOULD
ASSURE POSITIVE POLITICAL EFFECT FOR GOC.ENDERS

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